

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57818

OKANOGAN COUNTY CONSERVATION DISTRICT No. 19

Okanogan County, Washington

Special Audit

January 1, 1994 Through March 31, 1996

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Background

On April 5, 1996, the central field representative of the Washington State Conservation Commission on behalf of the Okanogan County Conservation District, notified the State Auditor's Office of a potential misappropriation of public funds through the unauthorized use of the district's checking account. As a result, we immediately commenced a special audit of the disbursements of Okanogan County Conservation District during the period January 1, 1994, through March 31, 1996.

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Scope And Opinion

This report represents the results of our audit of the disbursements of Okanogan County Conservation District for the period January 1, 1994, through March 31, 1996. The purpose of our audit was to determine whether expenditures were authorized by the governing body and made properly on behalf of the district.

Our audit was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. This audit was conducted under the authority of *Revised Code of Washington (RCW) 43.09.260*.

The scope of our audit was limited to determining if all expenditures were approved by the governing body and made for authorized purposes. The scope of our work was not sufficient to enable us to express an opinion on the district's financial statements, and we do not express an opinion of the financial position or results of operations of the Okanogan County Conservation District.

In our opinion, as detailed in the following finding, the lack of adequate internal controls over disbursements allowed the misappropriation of at least \$7,745.74 in public funds from Okanogan County Conservation District.

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Schedule Of Findings

1. Public Funds Were Misappropriated And Accounting Records Were Falsified And Destroyed

Our audit of the financial records of Okanogan County Conservation District revealed that at least \$7,745.74 in public funds was misappropriated by the ex-program/tree sale coordinator during the period July 6, 1995, through March 7, 1996. Accounting records were falsified and destroyed in an attempt to conceal these losses. There were no federal funds involved in this case. These funds were misappropriated as described below.

The ex-program/tree sale coordinator issued 15 checks made payable to herself from the district's checking account. She forged the two authorizing board member's signatures on these checks and then either cashed them or deposited them into her personal bank account. In addition, she made false entries in the district check register and accounting ledger for the information regarding payee, purpose, and accounting information for these checks. Nine of the checks were also destroyed after they had been returned to the district with the monthly bank statement.

The ex-program/tree sale coordinator was solely responsible for practically all district accounting functions during the period of this loss. When we discussed these irregular check transactions with her on June 27, 1996, she confessed to misappropriating public funds from the district and falsifying and destroying accounting records in an attempt to conceal these losses. She resigned her employment at the district effective March 8, 1996.

RCW 40.16.020 states:

Injury to and misappropriation of record. Every officer who shall mutilate, destroy, conceal, erase, obliterate or falsify any record or paper appertaining to the officer's office, or who shall fraudulently appropriate to the officer's own use or to the use of another person, or secrete with intent to appropriate to such use, any money, evidence of debt or other property intrusted to the officer by virtue of the officer's office, shall be punished by imprisonment in a state correctional facility for not more than ten years, or by a fine of not more than five thousand dollars, or by both.

RCW 42.20.060 states:

Falsely auditing and paying claims. Every public officer, or person holding or discharging the duties of any public office or place of trust under the state or in any county, town or city, a part of whose duty it is to audit, allow or pay, or take part in auditing, allowing or paying, claims or demands upon the state or such county, town or city, who shall knowingly

audit, allow or pay, or, directly or indirectly consent to or in any way connive at the auditing, allowance or payment of any claim or demand against the state or such county, town or city, which is false or fraudulent or contains any charge, item or claim which is false or fraudulent, shall be guilty of a gross misdemeanor.

The following internal control weaknesses allowed this misappropriation to occur and not be detected by management officials in a timely manner.

- a. There was an inadequate segregation of duties. The ex-program/tree sale coordinator was solely responsible for practically all district accounting functions, included issuing checks, maintaining the check register and accounting records, and reconciling the checking account.
- b. The district manager did not periodically review or monitor the work performed by the ex-program/tree sale coordinator. In addition, no one independent of the accounting function either reviewed or performed the monthly bank reconciliation.
- c. The board did not adequately review the checks and supporting documents for all disbursement transactions at the time of voucher approval.

We recommend the Okanogan County Conservation District seek recovery of the misappropriated \$7,745.74 and related audit/investigation costs from the ex-program/tree sale coordinator and their insurance bonding company. We further recommend the Washington State Office of the Attorney General and the Okanogan County Prosecuting Attorney review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for district employees is as follows:

Insurer: Western Surety Company
Type of Policy: Fidelity Bond
Policy Number: 58250014
Dollar Amount: \$15,000
Period of Coverage: June 12, 1988, to June 12, 1997

We also recommend the district review overall accounting controls, correct the weaknesses outlined above, and implement an effective system of internal control designed to ensure the protection of public assets.

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Directory Of Officials

Elected

| | | <u>Term</u> | <u>Expiration</u> |
|-----------------------|----------------|-------------|-------------------|
| Board of Supervisors: | | | |
| Chairman | Vern Harkness | 3 | 1998 |
| Vice Chair | Ivan Oberg | 3 | 1999 |
| Secretary-Treasurer | Floyd Thornton | 3 | 1997 |

Appointed

| | | | |
|-----------------------|---|---|------|
| Board of Supervisors: | Norm McClure | 3 | 1999 |
| | Bill White | 3 | 1998 |
| Bookkeeper | Fawn Martin (Resigned 3/8/96) Shirley Hendrick (Started 3/12/96) | | |

Mailing Address

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| District | 1251 S Second PO Box 872 Okanogan WA 98840 |
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